

WATER/SNR/TAC/LTR:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4452****January 8, 2004****R E S O L U T I O N**

**(RES. W-4452), VISTA GRANDE WATER SYSTEM (VGWS).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$13,367
OR 49.4%, IN 2004.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$13,367 or 49.4%, based on Test Year 2003. These increases will provide a 12.9% rate of return on a rate base of \$44,195.

BACKGROUND

VGWS's original increase request was filed utilizing Test Year 2001, when Test Year 2002 should have been used based on the timing of the filing and the estimated implementation date of rates. The Water Branch staff (Staff) assisted VGWS in revising its filing by applying the appropriate inflation factors. The revised filing was accepted on July 31, 2002.

VGWS has originally requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 31.2% or \$8,266 for Test Year 2002. While Staff was conducting its investigation, VGWS had completed further improvements to the system, the cost of which was not reflected in the original filing. Due to various delays, Staff increased all of the expense categories by the applicable CPI increases in order to bring the test year date to 2003. VGWS's final request is to increase its water rates by 49.4% or \$13,367 for Test Year 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return.

VGWS's final request incorrectly shows the gross revenues of \$26,340 at present rates increasing by 31.4% (or \$8,266) to \$34,606 at proposed rates and a rate of return on rate base of 12.9%. VGWS had erroneously lower rate base calculations, which resulted in lower proposed revenues.

The current rates were established on October 22, 2003, pursuant to recovery of annual Department of Health Services fees for time period from July 1, 2001 through September 30, 2003. The last general rate increase for VGWS was granted on November 21, 1995, pursuant to Resolution W-3951, which authorized an increase in gross annual revenues of \$5,300, or 27.1%, and a 14.25% rate of return on rate base for the Test Year 1995.

Currently, there are approximately 120 metered rate customers in an unincorporated area known as the Vista Grande subdivision, located roughly two miles north of the City of Red Bluff, Tehama County. VGWS's service area covers approximately two square miles of territory. VGWS's customers are a mixture of retired and working people earning average incomes for Tehama County.

DISCUSSION

VGWS is owned by the Patterson Trust, with Donald E. Crain as the named trustee and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust was formed in early 1992 and VGWS's ownership was transferred from Mr. and Mrs. Patterson to the Patterson Trust in December of 1992.

The Patterson Trust also owns two other water systems: Las Flores Water Works (LFWW) and Mira Monte Water Company (MMWC). All three water utilities are operated by Mr. Shan Patterson. VGWS employs three individuals: Mr. Shan Patterson (manager, general maintenance and field worker), Mrs. Shirley Patterson (office worker), and Eric (who aids in meter readings). The majority of repair work is done by Mr. Patterson, or is contracted out.

The three CPUC-regulated entities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). This requires the customers of each company to pay a percentage of these expenses. Shared expenses are allocated to each district based upon the number of customers. This resolution deals specifically with VGWS's rate increase request. LFWW's and MMWC's requests were dealt with in separate resolutions.

Appendix A shows VGWS's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows VGWS's and the Branch's estimates in operating revenues, expenses, and rate base.

Staff analyzed each operating expense item listed in Appendix A and disagreed with several of VGWS's estimates. Most differences involved allocation of expenses among the three water utilities. The largest difference between VGWS's and Staff's numbers is due to VGWS's gross underestimation of rate base numbers. Where indicated, Staff has allocated expenses based upon the percentage of total customers.

VGWS was informed of the Branch's differing views of revenues, expenses and rate base and agrees with the Branch's findings.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance, and depreciation expenses.

VGWS is a Class D water utility (less than 500 customers). The Water Division's Audit & Compliance Branch has conducted an analysis of the financial market changes during the last year and the high operational risks faced by Class D water companies and has determined that the appropriate range for Return on Equity (ROE) is between 12.40% and 13.40%. Branch recommends the midpoint of this range, or 12.90%.

Comparison of the revenue requirement indicates that the return on rate base method produces a higher revenue requirement than the operating ratio method. In keeping with policy, Staff recommends the return on rate base method for determining the revenue requirement.

The current workbook utilized for Class D utilities (now a modified 3-page document) only allows the utility to utilize the last adopted rate base figure and to add and retire plant additions since the last rate case. There are no adjustments allowed for accumulated depreciation on prior plant in service, working cash, or materials and supplies.

VGWS estimates \$33,562 for Rate Base for Test Year 2003. VGWS utilized the 1995 adopted rate base with adjustments made for plant additions/retirements (from 1995 to 2003), as provided in the current workbook. Staff estimates \$44,195 for rate base for Test Year 2003. Staff utilized the 1995 adopted rate base, made adjustments for plant additions/retirements, depreciation, working cash, and materials and supplies.

Staff utilized the 1995 approved plant-in-service figure of \$55,308 as its starting point. Staff then added the corresponding plant additions and retirements from 1995 to 2003, redistributed office furniture and equipment between the three water utilities, proportionately by the number of customers, and corrected numerous errors in VGWS's plant accounts as recorded in its annual reports (numerous account amounts were inadvertently recorded incorrectly and the errors were carried from annual report to annual report). Staff estimates, after all adjustments, the average utility plant-in-service to be \$85,758 for the 2003 Test Year.

Because of the redistribution of plant, Staff is recommending that VGWS be ordered to incorporate the following figures as beginning-of-year plant-in-service figures in its 2004 annual report:

ACCOUNT	DESCRIPTION	AMOUNT
301	Intangible Plant	501
303	Land	1,000
304	Structures	10,126
307	Wells	20,139
317	Other Water Source Plant	0
311	Pumping Equipment	16,201
320	Water Treatment Plant	617
330	Reservoirs, tanks, & sand pipes	6,057
331	Water Mains	22,897
333	Services & Meter Installations	7,595
334	Meters	6,256
335	Hydrants	1,000
339	Other Equipment	0
340	Office Furniture & Equipment	1,975
341	Transportation Equipment	0
	TOTAL	\$94,364

Staff is concerned that VGWS does not have a meter (source of supply measuring device) at either well. This is in direct violation of Section II.4.a of General Order (G.O.) 103, which states that a utility shall install a suitable measuring device, or otherwise determine the productions at each source of supply. At this time VGWS is unable to determine its water production and is therefore unable to determine its water loss. VGWS was ordered in Resolution W-3951 to install the device, but has not yet complied. Staff recommends that VGWS be ordered to install the source of supply measuring device within 90 days. VGWS has been filing annual reports as required. VGWS's tariff sheets have been reviewed by Staff and the following sheets need to be updated: Title Page, Rule 5, Rule 7, Rule 10, and Form 2.

VGWS's current rate structure consists of one schedule: Schedule No. 1, General Metered Service. The new rate schedule can be found in Appendix B. A bill comparison can be found in Appendix D. At the Branch's recommended rates shown in Appendix B, a monthly typical bill for residential metered customers with a 5/8 x 3/4-inch service using 23 Ccf of water would increase from \$18.43 to \$27.16 or 47.3% per month. A comparison of customer bills at present and recommended rates is shown in Appendix D. The adopted quantities and tax calculations are shown in Appendix C.

The Tehama County Health Department (TCHD) oversees all water quality and monitoring aspects of VGWS's system. Staff contacted TCHD regarding VGWS and TCHD reports that there are no outstanding problems with the system.

NOTICE AND PUBLIC MEETING

VGWS mailed its original notice of the proposed rate increase to each customer on September 16, 2002. VGWS mailed an updated notice on October 27, 2003, in which it inadvertently omitted the higher amount of the increase. VGWS mailed the final notice, which contained the corrected information on December 1, 2003. Three letters protesting the magnitude of the rate increase have been received by Staff. From March 17, 2002 to March 17, 2003, the Consumer Affairs Branch of the Public Affairs Division received one billing complaint regarding VGWS.

On October 10, 2002, Staff held a public meeting in Red Bluff, near VGWS's service territory. One customer attended the meeting. Ms. Tench, Utilities Engineer, conducted the meeting and explained Commission rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion with the participant.

FINDINGS

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
4. VGWS was informed of the Branch's differing views of revenues, expenses and rate base and agrees with the Branch's findings.
5. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).
7. VGWS does not have a source of supply measuring devices at its wells.
8. VGWS should be authorized to file an advice letter requesting recovery of the costs after the devices are in place and in full operation.

9. VGWS's system meets G.O. 103 pressure requirements.
10. VGWS does not maintain a detailed vehicle mileage log and is unable to provide actual mileage for its transportation expense.
11. VGWS's annual reports contain numerous recording errors.
12. VGWS's records are not properly kept in an easily accessible fashion.
13. VGWS's following tariff sheets need to be updated: Title Page, Rule 5, Rule 7, Rule 10, and Form 2.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Vista Grande Water System to file an advice letter incorporating the summary of earnings and the revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. The filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Vista Grande Water System is authorized to increase its annual revenues by \$13,367 or 49.4%, based on reasonable rates for 2003.
3. Within 90 days from the date of this order, Vista Grande Water System will install a source of supply measuring devices at its wells.
4. Vista Grande Water System is authorized to file an advice letter requesting recovery of the costs after the source of supply measuring devices are in place and in full operation.
5. Vista Grande Water System shall maintain a detailed vehicle mileage log that will clearly identify utility-related expenses.
6. Vista Grande Water System shall submit revised annual reports, which incorporate the correction of errors identified in Staff's analysis.
7. Vista Grande Water System shall incorporate the figures shown in this report as its beginning-of-year plant-in-service and depreciation reserve accounts in its 2003 annual report.
8. Vista Grande Water System shall keep their records in an easily accessible fashion and in accordance with the Commission's Uniform System of Accounts.

9. Vista Grande Water System shall update the following tariff sheets: Title Page, Rule 5, Rule 7, Rule 10, and Form 2.
10. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 8, 2004. The following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

Appendix A

Vista Grande Water System

Summary of Earnings -- Test Year 2002

<u>Description</u>	<u>VGWS</u>		<u>Branch</u>		<u>Recommended</u>
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<u>Operating Revenue</u>					
Metered	26,340	34,606	27,082	35,529	35,529
	26,340	34,606	27,082	35,529	35,529
<u>Operating Expenses</u>					
Power	7,120	7,120	7,120	7,120	7,120
Employee Labor	942	942	1,375	1,375	1,375
Materials	635	635	390	390	390
Contract Work – General	800	800	623	623	623
Contract Work - Water Testing	200	1,140	973	973	973
Transportation Expenses	1,200	1,200	2,006	2,006	2,006
Other Plant Maintenance	0	0	0	0	0
Office Salaries	5,318	5,318	3,954	3,954	3,954
Management Salaries	6,100	6,100	6,332	6,332	6,332
Uncollectible Expenses	70	70	70	70	70
Office Services & Rent	1,004	1,004	2,021	2,021	2,021
Office Supplies & Expense	700	700	1,126	1,126	1,126
Professional Services	103	103	151	151	151
Insurance	700	700	1,164	1,164	1,164
Regulatory Commission Expenses	400	400	510	510	510
General Expenses	723	723	13	13	13
Subtotal	26,520	26,520	28,829	28,829	28,829
Depreciation	1,564	1,564	2,043	2,043	2,043
State Income Tax	--	1,572	0	229	800
Federal Income Tax	--	--	0	354	1,006
Taxes Other than Income Taxes	587	587	2,068	2,068	2,068
Total Deductions	28,671	30,243	32,939	33,522	34,746
Net Revenue	-2,331	4,363	-5,858	2,006	5,703
<u>Rate Base</u>					
Average Plant	--	--	85,758	85,758	85,758
Avg. Accumulated Depreciation	--	--	44,416	44,416	44,416
Net Plant	--	--	41,342	41,342	41,342
<u>Less</u> Advances	--	--	0	0	0
Contributions	--	--	0	0	0
<u>Plus</u> Working Cash	--	--	2,402	2,402	2,402
Materials & Supplies	--	--	450	450	450
Rate Base:	33,562	33,562	44,195	44,195	44,195

<u>Rate of Return</u>	-6.95%	13.00%	-13.25%	4.54%	12.90%
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Appendix B

Vista Grande Water System

Schedule No. 1

General Metered Service

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Vista Grande Subdivision and vicinity, located approximately two miles northeast of Red Bluff, Tehama County.

RATES

Quantity Rates	Per Meter Per Month	
All water, per 100 cu. ft.	\$.572	(I)
Service Charge		
For 5/8 x 3/4-inch meter	\$14.00	(I)
For 3/4-inch meter	\$21.00	
For 1-inch meter	\$28.00	
For 1-1/2 inch meter	\$35.00	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
2. A late charge will be imposed per Schedule No. LC.
(D)
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**Appendix C
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Vista Grande Water System

Recommended Quantities -- Test Year 2002

Expenses

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income
2. State Tax Rate: 8.84%
3. Purchased Power:
Purchased Power:
Pacific Gas and Electric Company, Schedule No. A-1 & A-1P,
Small General Service, Effective July 27, 2001
Quantity Charge:
kWh used - total: 35,456
kWh used - summer: 25,082
\$/kWh - summer: \$0.14870
kWh used - winter: 10,374
\$/kWh - winter: \$0.10193
Service Charge:
\$/pump/mo. - single-phase: \$8.10
\$/pump/mo. - polyphase: \$12.00
of pumps - single phase: 0
of pumps - polyphase: 2

Pacific Gas and Electric Company, Schedule No. E-EPS,
Energy Procurement Surcharges, Effective August 8, 2001
Quantity Charge:
All electric service customers: \$0.0100/kWh
Schedule A-1 & A-1P customers
\$/kWh - summer: \$0.06140
\$/kWh - winter: \$0.02838

Appendix C
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Vista Grande Water System

Recommended Quantities -- Test Year 2002

4. Service Connections:

For 5/8 x 3/4-inch meter	113
For 3/4-inch meter	4
For 1-inch meter	1
For 1-1/2-inch meter	3
TOTAL	120

Metered water sales used to design rates: 33,504 Ccf

5. Property Taxes: \$499 (1.0% tax rate)

6. Payroll Taxes: \$1,569

7. Contract Work - Water Testing: \$1,390

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$40,449	\$40,449
2.	Expenses	\$28,829	\$28,829
3.	Taxes Other Than Income Taxes	\$ 2,068	\$ 2,068
4.	Depreciation	\$ 2,043	\$ 2,043
5.	Interest	\$ 0	\$ 0
6.	State Taxable Income	\$ 7,510	
7.	State Income Tax (@8.84%, no \$800 minimum)	\$ 800	
8.	Federal Taxable Income		\$ 6,710
9.	Federal Income Tax (@15%)		\$ 1,006
10.	TOTAL INCOME TAX		\$ 1,806

Appendix D

Vista Grande Water System

Comparison of Rates -- Test Year 2002

METERED SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 8.61	\$14.00	62.6%
For 3/4-inch meter	\$ 9.52	\$21.00	120.6%
For 1 – inch meter	\$12.98	\$28.00	115.7%
For 1 1/2 – inch meter	\$17.29	\$35.00	102.4%

Quantity Charge:

All water, per 100 cu. ft.	\$.427	\$.572	34%
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Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4-inch is shown below at current rates and recommended rates for Test Year 2002:

<u>Usage 100 cu. ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount of Increase</u>	<u>Percent of Increase</u>
0	\$8.61	\$14.00	\$5.39	62.6%
5	\$10.75	\$16.86	\$6.12	56.9%
10	\$12.88	\$19.72	\$6.84	53.1%
20	\$17.15	\$25.44	\$8.29	48.3%
23 (avg)	\$18.43	\$27.16	\$8.73	47.3%
30	\$21.42	\$31.16	\$9.74	45.5%
40	\$25.69	\$36.88	\$11.19	43.6%
50	\$29.96	\$42.6	\$12.64	42.2%